LEGISLATIVE SERVICES AGENCY

OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

200 W. Washington, Suite 301
Indianapolis, IN 46204
(317) 233-0696
http://www.in.gov/legislative

FISCAL IMPACT STATEMENT

LS 6266 | **NOTE PREPARED:** Dec 2, 2011
BILL NUMBER: HB 1292 | **BILL AMENDED:**

SUBJECT: Homestead Standard Deduction.

FIRST AUTHOR: Rep. Heaton | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: **GENERAL** **DEDICATED** **FEDERAL** | **IMPACT:** Local

Summary of Legislation: This bill provides that the homestead of a married individual who lives in a separate principal place of residence other than the residence of the individual's spouse is eligible for the standard homestead deduction and other tax reductions for a homestead.

Effective Date: July 1, 2012.

Explanation of State Expenditures:

Explanation of State Revenues:

Explanation of Local Expenditures:

Explanation of Local Revenues: Under current law, a county auditor may not grant a standard deduction to an individual or a married couple if the individual or couple is claiming the deduction on two or more applications.

An exception in current law exists in the case where the individual’s spouse claims a similar deduction on property located outside of Indiana. In this case, the individual may qualify for the deduction if the individual files an affidavit containing:

(1) The names of the county and state in which the spouse claims a similar deduction; and
(2) A statement under penalty of perjury that the individual and spouse maintain separate principal residences, that neither spouse has an ownership interest in the other's homestead, and that neither party has claimed a deduction for any property other than their principal residence.

Beginning with property taxes payable in 2013, this bill would remove the requirement that the spouse's residence be located outside of Indiana. So, under the proposal, a married couple could claim homestead standard deductions on 2 homes in Indiana if (1) the couple maintains separate residences, and (2) neither party has an ownership interest in their spouse's home.

Homesteads receive a standard deduction worth 60% of assessed value (AV) up to a maximum of $45,000. They also receive the supplemental standard deduction worth 35% of the first $600,000 of net AV after the standard deduction plus 25% of the net AV that exceeds $600,000. In addition, several counties offer LOIT-funded property tax credits against the tax liability of homestead property. Homestead property is subject to a 1% circuit breaker cap rather than the 2% cap for nonhomestead residential property.

The number of taxpayers who could qualify for a standard deduction under this provision is not known. This provision would result in a shift of a part of the tax burden from the affected individuals to all other taxpayers because the AV base would be reduced and the tax rate would increase.

Circuit breaker cap losses could also increase for local civil taxing units and school corporations. Depending on the assessed value of the homes that would qualify for the deduction, the 1% tax cap for homesteads could make some of them eligible for circuit breaker credits where they might not currently qualify under the 2% cap. Additionally, if tax rates increase, then the circuit breaker credits for other properties that are currently at the caps could increase.

State Agencies Affected:

Local Agencies Affected: County auditors; Local civil taxing units and school corporations.

Information Sources:

Fiscal Analyst: Bob Sigalow, 317-232-9859.